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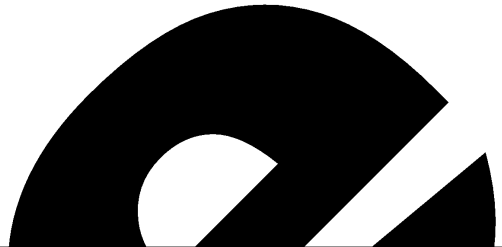

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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Czechoslovakia: The Economic Meaning of Enforced Soviet Control

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AUGUST 1968

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
26 August 1968

INTELLIGENCE MEMORANDUM

Czechoslovakia: The Economic Meaning of Enforced Soviet Control

Summary

If the Soviet armed intervention is followed by the reimposition of a hard line on economic policy and the repudiation of the liberalization planned by the Dubcek regime, then Czechoslovakia's hopes for long-term economic change have been dashed. The deposed government proposed to change the economic structure, to free producers from direct state control, and to make the economy competitive on the Western market, as it was in 1948. For all this, the regime needed and was seeking help from the West. Hard-line leaders, handpicked by the Soviet Party, will be neither willing nor able to undertake such changes. Instead, Czechoslovakia is likely to continue to have a substandard European economy, operated under direct state control and dependent on the USSR.

There will be some economic growth. For a time the economy will follow much the same course that necessity would have imposed on the Dubcek regime. Growth could even be facilitated in the short run by Soviet and Eastern European help that Dubcek could not expect. The difference is that hopes for a freer, more competitive economy and society aided by Western loans and technology and with close ties to the West must once again go underground.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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Post-Invasion Economic Policy

1. The Soviet occupation of Czechoslovakia, assuming that it continues, puts an end to plans for making a fresh start in Czech economic policy. Under a Soviet-imposed regime, whoever heads it, centralized control over the economy will necessarily be tightened, and the influence of competent planners and managers will be much reduced -- some will lose their jobs -- as a result of universal distrust and bitterness. Political opportunists will doubtless acquire some top economic posts for which they are poorly qualified. Passive resistance by workers may become a serious problem. All this can mean only that the conspicuous waste and inefficiency that have been the object of so much criticism will continue and grow.

2. Czechoslovakia's trade with the USSR, East Germany, and Poland -- already more than one-half of total trade -- will doubtless jump sharply. Increased Soviet willingness to take machinery from Czechoslovakia will maintain full employment in the country's factories and increase its economic dependence on the USSR. Additional consumer goods may be made available in the short run to appease the workers. Credits, "joint ventures," and coordination of economic plans will be used to tighten the tie that binds and to prepare the way for an impressive Czech showing in the near future. The USSR may well furnish some hard currency to Czechoslovakia -- it gave $50 million to Hungary in 1957 -- although not the large loan ($550 million) requested by the Dubcek regime. There was not much chance of getting such an amount from the USSR in the first place, and a token hard currency loan would do little to modernize Czech industry.

Economic Prospects

3. In terms of output, the short-run prospects are not really very different from what they would have been under the Dubcek regime, if Dubcek had gained Soviet cooperation. The regime had already planned on a growth of 5 to 6 percent per year in total output in 1969-70, accepting the need to subsidize high-cost

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industries, the production of unsaleable goods, and unprofitable exports. Some type of "economic reform" is likely to be maintained, probably the standard variety prevalent in Eastern Europe. But the hope of real change will be gone. Economic growth obtained under tight control and through trade with the Communist world will be largely illusory, like past Czech growth. As Professor Ota Sik has been telling the people, most recently on television, growth has been maintained mainly through expanding the output of obsolete goods, most of which were then used -- directly through investment and indirectly through trade with the Communist world -- to make possible the output of more obsolete goods, of which the same uses must be made. Czechoslovakia now remains caught in this vicious circle.

Hopes Forgone

4. The Dubcek regime was preparing an escape from this circle by making structural and organizational changes in the economy. The regime had already cut back projected long-term rates of increase in heavy industry, and these changes were reflected in the draft 1969 directives for the economy, issued in early August. The largest increases projected in output, aside from petroleum refining and chemicals -- based on Soviet crude oil -- were in consumer goods and building materials. The main increases in investment apparently were to be in the same industries and in agriculture, transport and communications, and housing.

5. Over time, as structural changes improved Czechoslovakia's competitive position, Dubcek's economic advisers hoped to introduce an economic system somewhat like that of Yugoslavia, in which enterprises would make their own decisions, with the advice and consent of workers' representatives and subject to broad government regulation, somewhat like wartime controls in Western economies.

6. The hope of overcoming the handicaps of 20 years of Communist mismanagement of the Czech economy was perhaps vain. But it formed part of an overall policy under which Czechoslovakia had a prospect of being a more livable place. The hope and prospect must now be deferred indefinitely.

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Relations with the West

7. The Czechs must likewise forgo hopes of achieving closer relations with the West, in economic affairs as in politics and culture. The Dubcek regime expected to enlist Western aid in modernizing the economy. Russian and Eastern European equipment -- in whatever amounts -- cannot effectively substitute for Western equipment in achieving this aim. The regime also hoped ultimately -- in five to seven years -- to make the Czech economy part of the European market, with a "convertible" currency.

8. Instead, economic relations with the West probably will be narrowed and surely will not be expanded, although relations with less developed countries may be expanded. The growth of trade with the developed West* -- now about 19 percent of total trade -- is likely to slow down, and terms of trade will probably continue to deteriorate. Tourism will lag. Large Western loans and technical assistance, from which the regime hoped to gain so much, are now out of the question. And Czechoslovakia cannot hope to follow Yugoslavia and Rumania in obtaining the political benefits of greater economic independence.

* *Western Europe (except for Greece, Spain, and Portugal) and the United States, Canada, Japan, Australia, New Zealand, and South Africa.*

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